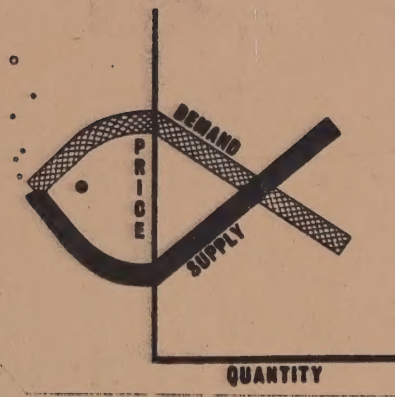

THE 1969 FISHING FLEET IMPROVEMENT ACT: SOME ADVANTAGES OF ITS PASSAGE

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(continued on inside back cover)

The 1969 Fishing Fleet Improvement Act: Some Advantages of Its Passage

A. Advantages of the 1969 Act Itself

1. As with the 1964 Act, the general purpose of the 1969 Act is "to correct an inequity" stemming from a 1793 Federal law. The 1793 Federal law prohibits the purchase of U.S. fishing vessels from other countries. Because U.S. built vessels are approximately twice as costly as foreign built vessels, this becomes a direct burden on the U.S. fishing industry. Therefore, the 1969 will erase this unjust burden.

2. The economic impact of the 1793 Federal law which prohibits the purchase of U.S. fishing vessels from other countries is to raise the capital cost to the fishing firm and, as a result, the annual operating costs of landing fish. Tables 1-3 show the impact of the 1793 Federal law on the cost of fish landed for the Groundfish, Tuna and Menhaden fisheries. For example, if the 1793 Federal law were abolished, this would lower the cost of Groundfish landed per pound from 11.18 cents to 10.13 cents. Thus, the cost

Table 1 -- A Comparison of the Cost Per Pound of Fish Landed With and Without the 1793 Federal Law for New England Groundfish (1966)

Item	Capital and Operating Costs of Vessels: built in U.S. yards[1]	built in foreign yards[2]
	dollars	
Working capital	30,000	30,000
Vessel & equipment	520,000	260,000
Fishing gear	12,000	12,000
Total Assets	562,000	302,000
Borrowed capital	355,000	182,000
Net worth	207,000	120,000
Gross revenue	385,000	385,000
Trip expenses & labor	252,200	252,200
Owner's costs:		
insurance	25,000[3]	15,900
repair & maintenance	37,000	37,000
interest	26,600[3]	13,600
administration, management & other	20,000	20,000
depreciation	32,100[3]	17,200
Total Costs	392,900	355,900
Income (loss)	(7,900)	29,100
Cost per pound of fish	11.18¢ (10.4 percent increase)	10.13¢

1/ The effect with 1793 Law
2/ The effect of 1793 Law abolished
3/ Higher costs because of higher capital input

Table 2 -- A Comparison of the Cost Per Pound of Fish Landed With and Without the 1793 Federal Law for West Coast Tuna Fishery (1965)

Item	Capital and Operating Costs of Vessels: built in U.S. yards[1/]	built in foreign yards[2/]
	dollars	
Working capital	30,000	30,000
Vessel & equipment	650,000	325,000
Fishing gear	50,000	50,000
Total Assets	730,000	405,000
Borrowed capital	466,000	250,000
Net worth	264,000	155,000
Gross revenue	375,000	375,000
Trip expenses & labor	206,000	206,000
Owner's costs:		
repairs	28,000	28,000
gear & supplies	12,400	12,400
insurance	27,900[3/]	16,500
interest	34,900[3/]	18,800
depreciation	47,000[3/]	28,500
other	24,300	24,300
Total Costs	380,500	334,500
Income (loss)	(5,500)	40,500
Cost per pound of fish	13.65¢ (13.8 percent increase)	12.0¢

1/ The effect with 1793 Law
2/ The effect of 1793 Law abolished
3/ Higher costs because of higher capital input

Table 3 -- A Comparison of the Cost Per Pound of Fish Landed With and Without the 1793 Federal Law for the Menhaden Fishery (1966)

Item	Capital and Operating Costs of Vessels: built in U.S. yards[1]	built in foreign yards[2]
	dollars	
Working Capital	10,000	10,000
Vessel & equipment	400,000	200,000
Fishing gear	12,000	12,000
Total Assets	422,000	222,000
Borrowed Capital	274,000	141,000
Net Worth	148,000	81,000
Gross Revenue	112,000	112,000
Costs:		
labor, repairs, supplies, administration, other	81,900	81,900
insurance	16,300[3]	9,300
interest	20,600[3]	10,600
depreciation	25,200[3]	13,800
Total Costs	144,000	115,600
(loss)	(32,000)	(3,600)
Costs per pound of fish	2.13¢ (24.5 percent increase)	1.71¢

1/ The effect with 1793 Law
2/ The effect of 1793 Law abolished
3/ Higher costs because of higher capital input

per pound of Groundfish landed is nearly 11 percent higher because of the existence of the 1793 Federal law. The same law raises Tuna costs by nearly 14 percent and Menhaden costs by almost 25 percent. This makes it extremely difficult for the U.S. fishermen to compete on an international basis. It is not only unfair to the U.S. fisherman, but seriously damages the growth potential of an industry that might provide jobs for an increasing American population and also help contribute to the solution of our critical balance of payments problem. For these reasons, the enactment of the 1969 Fishing Fleet Improvement Act is extremely necessary in order to strengthen the American economy.

3. The guidelines of the 1969 Act will be so written to limit the entry of vessels in those fisheries that are at or beyond maximum sustainable yield unless capacity is withdrawn. Therefore, the 1969 Act promotes the optimum use of government funds in achieving economic development of the fisheries.

B. A Comparison of the 1969 Act with a Suggested Alternative: Trade Barriers

1. Some have suggested that an increase in tariffs on fish products or lower quotas could in some way be a substitute

measure for the 1969 Fishing Fleet Improvement Act. It must be remembered that increased duties mean higher prices to consumers of fish products. This alternative represents a direct tax on the consumer of a staple food product. This is a <u>regressive</u> type of tax since the burden of this tax would fall upon those for whom food in general makes up a higher percentage of their budget. These are primarily low income people.

From an equity standpoint, a better alternative is to take tax money from the general treasury and directly subsidize fishermen through the 1969 Fishing Fleet Improvement Act. Since the 1793 Federal law was enacted to protect the shipbuilding industry for national defense purposes (i.e., defense spending by burdening the U.S. fishing industry) it is entirely in keeping with National policy to subsidize fishermen from the general fund. The subsidy would then be based upon a progressive tax.

2. Tables 4-6 are hypothetical examples of the necessary domestic ex vessel price increase required to have the same impact on the returns to capital as the 1969 Fishing Fleet Improvement

Table 4 -- A Comparison of the Ex-Vessel Price Increase Necessary to Produce the Same Rate of Return on Invested Capital as a 50% Construction Cost Subsidy. New England Groundfish (1966)

Item	Capital and Operating Cost: The Impact of a 50% Construction Cost Subsidy	The Impact of a Price Increase Only
	dollars	
Working capital	30,000	30,000
Vessel & equipment	260,000	520,000
Fishing gear	12,000	12,000
Total Assets	302,000	562,000
Gross revenue	385,000	551,200 1/
Trip expenses and labor	252,200	360,200
Owner's costs:		
insurance	25,000	25,000
repairs & gear	37,000	37,000
management, administration, cost & payroll taxes	20,000	20,000
depreciation	15,500	32,800
Total Costs	349,700	475,000
Taxable income	35,300	76,200
Corporate taxes	10,500	30,100
Net profit	24,800	46,100
Return on Investment	8.21%	8.21%

1/ Price increase = 43.2 percent

Table 5 -- A Comparison of the Ex-Vessel Price Increase Necessary to Produce the Same Rate of Return on Invested Capital as a 50% Construction Cost Subsidy. West Coast Tuna Fishery (1965)

Item	Capital and Operating Cost: The Impact of a 50% Construction Cost Subsidy	The Impact of a Price Increase Only
	dollars	dollars
Working capital	30,000	30,000
Vessel & equipment	325,000	650,000
Fishing gear	50,000	50,000
Total Assets	405,000	730,000
Gross revenue	375,000	501,300 1/
Trip expenses & labor	206,000	265,300
Owner's costs:		
maintenance & repair	28,000	28,000
gear & supplies	12,400	12,400
insurance	27,900	27,900
depreciation	28,500	47,000
other	24,300	24,300
Total Costs	327,100	404,900
Taxable income	47,900	96,400
Corporate taxes	16,500	39,800
Net profit	31,400	56,600
Return on Investment	7.75%	7.75%

1/ Price increase = 33.7 percent

Table 6 -- A Comparison of the Ex-Vessel Price Increase Necessary to Produce the Same Rate of Return on Invested Capital as a 50% Construction Cost Subsidy. The Menhaden Fishery (1966)

Item	Capital and Operating Cost: The Impact of a 50% Construction Cost Subsidy	Capital and Operating Cost: The Impact of a Price Increase Only
	dollars	dollars
Working capital	10,000	10,000
Vessel & equipment	200,000	400,000
Fishing gear	12,000	12,000
Total Assets	222,000	422,000
Gross Revenue	112,000	135,500 1/
Owner's Costs:		
labor	33,600	40,650
insurance, repairs, supplies, administration, other	59,000	59,000
depreciation	13,800	25,200
Total Costs	106,400	124,850
Taxable income	5,600	10,650
Income taxes	1,230	2,350
Net profit	4,370	8,300
Return on Investment	1.97%	1.97%

1/ Price increase = 21 percent

Act for the Groundfish, Tuna and Menhaden fisheries. In other words, how high would domestic ex vessel prices have to go - due, for example, to increased tariffs or reduced quotas - to have the same impact as the 1969 Act? Assuming no initial loss in demand due to higher prices, it is necessary to have a 48, 34, and 21 percent increase in price for Groundfish, Tuna and Menhaden respectively to equal the effect of a 50 percent subsidy to these fisheries. Such large increases in fish prices due to change in trade barriers would have the following undesirable impacts:

a) Any attempt to subsidize fishermen by higher tariffs on fish imports or decreased quotas in lieu of the 1969 Fishing Fleet Improvement Act may be self-defeating. For example, if tariff duties were increased on food fish products as a group, the rise in prices may result in consumer substitution of lower cost meat and poultry for fish products. Therefore, rates of return would probably not increase as indicated in Tables 4-6 due to increased trade barriers. The passage of the 1969 Fishing Fleet Improvement Act will not have this undesirable impact since fish prices will not be influenced.

b) Since price is increased to all U.S. firms (vessels) in the fishery, this represents a retroactive subsidy payment. Not only do new firms experience the subsidy impact of the tariff, but old firms as well. This will certainly result in a greater tax bill upon consumers than the funds acquired from the general treasury to finance the 1969 Act. The 1969 Act and all prior Acts were only desiged to help finance the entrance of new capital and were not meant to be retroactive. We have calculated the added burden to the consumer for selected fisheries of the above import duties.

Table 7

Burden to Consumer as a Result of Increased Trade Barriers

Fishery	Total Revenue from U.S. Landings (1968) 1000 dollars	Percent Increase in Ex Vessel Prices due to Increased Duties Needed to Equalize 50% subsidy to Capital	Added Burden to Consumer* 1000 dollars
Groundfish	29,494	43	12,682
Tuna	47,305	34	16,084
Menhaden	18,700	21	3,927

* We are assuming that the consumer does not substitute other protein items for these fish products.

Because increased duties influence the level of prices and apply to all firms as opposed to the 1969 Fishing Fleet Improvement Act which affects the margin, the impact on the U.S. consumer is greatly different.

c) It should be pointed out that the sudden drop in the supply of fishery products due to increased tariff barriers will have economically disastrous consequences for American processors and retailers. In the short run, it is virtually impossible for the American domestic fishing industry to supply the required volume of fishery products. The sudden drop in consumer demand for fishery products due to higher prices will cause financial losses to processors and retailers of fish products. These firms cannot switch to other lines of economic activity in the short run. If we assume that increased trade barriers on food fish will result, for example, in a decline in imports by 50 percent, this will result in a loss to U.S. processors of imports, wholesalers and seafood restaurants of approximately $170,000,000.

3. Under the terms of the new 1969 Fishing Fleet Improvement Act, the U.S. government will be in a much better position

to control capital flows into the U.S. fisheries. The guidelines for the new Act specifically establish under what circumstances a fishery may be subsidized. In general, if the fishery is near or beyond maximum sustainable yeild, new subsidized capacity cannot be added unless excess capacity is withdrawn. This is a very critical problem for the following list of fisheries:

1. Northern lobster
2. Menhaden, Atlantic-Gulf
3. Shrimp, Atlantic
4. Salmon, Pacific
5. Groundfish, North Atlantic
6. Sea Scallop, North Atlantic
7. Shrimp, Gulf
8. King Crab, Alaska
9. Tuna, yellowfin, Pacific
10. Halibut, Pacific

If large tariff duties or quota restrictions were placed on the above species in lieu of the 1969 Fishing Fleet Improvement Act, the result would be to encourage "excess capacity" in these fisheries. The entrance of U.S. capital due to higher domestic prices would most probably result in the

exploitation of many of these fisheries either beyond maximum sustainable yield for the unregulated fisheries or a significant reduction in the fishing season for those fisheries subject to regulations. The latter result would be most regrettable in the case of yellowfin tuna. Hence, the judicious control of capital flow into selected fisheries as outlined in the 1969 Fishing Fleet Improvement Act offers a much superior solution as opposed to higher tariff duties or increased quotas.

4. It is quite obvious that in the building of certain fishing vessels (e.g., shrimp) the U.S. is not a high cost producer. Therefore, one would be forced to the position that the Fishing Fleet Improvement Act should not apply to all fisheries. This is the present case. Hence, tariff duties - if they are viewed as a substitute for the 1969 Act - should be selectively placed on those fisheries having differential construction costs. If this is done, the possible impact will be merely to reallocate the consumer's dollar among fishery products. The consumer may merely substitute one type of fish for another. Hence, selective tariffs may be self-defeating.

5. Selective tariffs (as argued in point 4) on individual species of fish may result in higher prices, but lower revenues per fishing firm. It is a well established fact that the demand for individual species is price elastic. Increases in ex vessel prices may result in lower gross revenue for the industry. The reason for this is that ex vessel prices do not rise as fast as the drop in overall consumption. Therefore, each fishing firm will sell much less at slightly higher prices. Hence, increased tariffs may have the likely impact of actually lowering the return on invested capital as opposed to increasing the yield on capital. Hence, the 1969 Fishing Fleet Improvement Act is a superior alternative to raising tariffs since it will not result in a possible reduction in the rate of return on capital.

(continued from inside front cover)

14. A Price Incentive Plan for Distressed Fisheries by A. A. Sokoloski and E. W. Carlson.

15. Demand and Prices for Shrimp by D. Cleary.

16. Industry Analysis of Gulf Area Frozen Processed Shrimp and an Estimation of Its Economic Adaptability to Radiation Processing by D. Nash and M. Miller.

17. An Economic Evaluation of Columbia River Anadromous Fish Programs by J. A. Richards.

18. Economic Projections of the World Demand and Supply of Tuna, 1970 - 90 by F. Bell.

19. Economic Feasibility of a Seafood Processing Operation in the Inner City of Milwaukee by D. Cleary.

20. The 1969 Fishing Fleet Improvement Act: Some Advantages of its Passage by the Division of Economic Research.

21. An Economic Analysis of Policy Alternatives for Managing the Georges Bank Haddock Fishery by L. W. Van Meir.

22. Some Analyses of Fish Prices by F. Waugh and V. Norton.

23. Some Economic Characteristics of Pond-Raised Catfish Enterprises by J. E. Greenfield

24. Elements Crucial to the Future of Alaska Commercial Fisheries by D. Nash, A. Sokoloski, and D. Cleary.

25. Effects on the Shrimp Processing Industry of Meeting the Requirements of Wholesome Fishery Products Legislation by D. Nash and M. Miller.

26. Benefit Cost Analysis of a Proposed Trawl Systems Program by M. Miller.

27. An Economic Analysis of Future Problems in Developing the World Tuna Resource: Recommendations for the Future Direction of the BCF Tuna Program by F. Bell.

28. Economic Efficiency in Common Property Natural Resource Use: A Case Study of the Ocean Fishery by D. W. Bromley

29. Costs, Earnings and Borrowing Capacity for Selected U. S. Fisheries, by A. Sokoloski, E. Carlson, and B. Noetzel.

30. Fish Cycles: A harmonic analysis by F. Waugh and M. Miller.

31. Benefit-Cost Analysis as Applied to Commercial Fisheries Programs, by F. Bell.

32. Economic Study of San Pedro Wetfish Boats by W. F. Perrin and B. Noetzel.

33. A Survey of Fish Purchases by Socio-Economic Characteristics - First Quarterly Report - February, May, April, 1969 by Darrel A. Nash.

34. A Survey of Fish Purchases by Socio-Economic Characteristics, Second Quarterly Report - May June July by D. Nash.

The goal of the Division of Economic Research is to engage in economic studies which will provide industry and government with costs, production and earnings analyses; furnish projections and forecasts of food fish and industrial fish needs for the U. S.; develop an overall plan to develop each U. S. fishery to its maximum economic potential and serve as an advisory service in evaluating alternative programs within the Bureau of Commercial Fisheries.

In the process of working towards these goals an array of written materials have been generated representing items ranging from iterim discussion papers to contract reports. These items are available to interested professionals in limited quantities of offset reproduction. These "Working Papers" are not to be construed as official BCF publications and the analytical techniques used and conclusions reached in no way represent a final policy determination endorsed by the U. S. Bureau of Commercial Fisheries.

2797